



DEPARTMENT OF HEALTH AND HUMAN SERVICES  
**OFFICE OF INSPECTOR GENERAL**



OFFICE OF AUDIT SERVICES, REGION V  
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October 1, 2019

Report Number: A-05-17-00049

Ms. Jodi Harpstead  
Commissioner  
Minnesota Department of Human Services  
P.O. Box 64998  
540 Cedar Street  
Saint Paul, MN 55164

Dear Ms. Harpstead:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *The Minnesota State Medicaid Agency Made Capitation Payments to Managed Care Organizations After Beneficiaries' Deaths*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary. The HHS action official will make final determination as to actions taken on all matters reported.

Section 8M of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <https://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact David Markulin, Assistant Regional Inspector General for Audit Services, at (312) 353-1644 or through email at [David.Markulin@oig.hhs.gov](mailto:David.Markulin@oig.hhs.gov). Please refer to report number A-05-17-00049 in all correspondence.

Sincerely,

Sheri L. Fulcher  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

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Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**THE MINNESOTA STATE MEDICAID  
AGENCY MADE CAPITATION PAYMENTS  
TO MANAGED CARE ORGANIZATIONS  
AFTER BENEFICIARIES' DEATHS**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



Gloria L. Jarmon  
Deputy Inspector General  
for Audit Services

October 2019  
A-05-17-00049

# *Office of Inspector General*

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## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

## Report in Brief

Date: October 2019

Report No. A-05-17-00049

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES  
**OFFICE OF INSPECTOR GENERAL**



### Why OIG Did This Review

Previous OIG reviews found that States had improperly paid Medicaid managed care organizations (MCOs) capitation payments on behalf of deceased beneficiaries. We conducted a similar review of the Minnesota Department of Human Services, which administers the Medicaid program.

Our objective was to determine whether Minnesota made capitation payments on behalf of deceased beneficiaries.

### How OIG Did This Review

Our audit covered 6,318 capitation payments, totaling \$4.4 million, with service dates during the period January 1, 2014, through December 31, 2016 (audit period), made on behalf of beneficiaries reported as deceased. To identify beneficiaries reported as deceased, we matched the Medicaid Management Information System (MMIS) data with the Social Security Administration's Death Master File (DMF) using the beneficiaries' Social Security numbers, names, and dates of birth. We then identified all capitation payments that occurred for months following a beneficiary's month of death in the DMF.

We selected a simple random sample of 100 capitation payments, totaling \$68,265 (\$60,311 Federal share), identified the date of death as reported in the DMF, and determined whether payments were made on behalf of the deceased beneficiaries.

## The Minnesota State Medicaid Agency Made Capitation Payments to Managed Care Organizations After Beneficiaries' Deaths

### What OIG Found

We estimated that Minnesota made unallowable capitation payments totaling at least \$3.7 million (\$3.2 million Federal share) to MCOs on behalf of deceased beneficiaries during our audit period. Of the 100 capitation payments in our random sample, Minnesota made 95 unallowable payments totaling \$62,665 (\$55,932 Federal share).

The unallowable payments occurred because Minnesota did not always identify and process Medicaid beneficiaries' death information. During our audit period, Minnesota was in the process of integrating a new eligibility and enrollment system that did not always properly interface with the MMIS, which Minnesota uses to process payments to MCOs.

### What OIG Recommends and Minnesota Comments

We recommend that Minnesota (1) refund \$3.2 million to the Federal Government; (2) identify and recover unallowable payments made to MCOs during our audit period on behalf of deceased beneficiaries, which we estimated to be at least \$3.7 million; (3) identify capitation payments made on behalf of deceased beneficiaries before and after our audit period, and repay the Federal share of amounts recovered; (4) ensure Minnesota Medicaid staff are properly trained to process dates of death and eligibility termination in accordance with Minnesota's internal policies; and (5) utilize additional sources to identify dates of death to help reduce unallowable payments.

In written comments on our draft report, Minnesota did not specifically concur with our recommendations. Minnesota stated that it will review the beneficiary and date of death information received from OIG and return any Federal funds that can be validated as overpayments. In addition, Minnesota described actions it has taken or plans to take to address our remaining recommendations.

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## INTRODUCTION

### WHY WE DID THIS REVIEW

The Minnesota Department of Human Services (State agency) pays managed care organizations (MCOs) to provide covered health care services in return for a monthly fixed payment for each enrolled beneficiary (capitation payment). Previous Office of Inspector General (OIG) reviews<sup>1</sup> found that State Medicaid agencies had improperly paid capitation payments on behalf of deceased beneficiaries. We conducted a similar review of the State agency, which administers the Medicaid program.

### OBJECTIVE

Our objective was to determine whether the State agency made capitation payments on behalf of deceased beneficiaries.

### BACKGROUND

#### The Medicaid Program

The Medicaid program provides medical assistance to low-income individuals and individuals with disabilities (Title XIX of the Social Security Act (the Act)). The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

The Medicaid managed care programs are intended to increase access to and improve the quality of health care for Medicaid beneficiaries. States contract with MCOs to make services available to enrolled Medicaid beneficiaries, usually in return for capitation payments. States report capitation payments on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (Form CMS-64). The Federal Government pays its share of a State's medical assistance expenditures (Federal share) under Medicaid based on the Federal medical assistance percentage (FMAP), which varies depending on the State's relative per capita income as calculated by a defined formula (42 CFR § 433.10). During our audit period (January 1, 2014, through December 31, 2016), the FMAP in Minnesota was 50 percent.<sup>2</sup>

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<sup>1</sup> See Appendix B for related OIG reports.

<sup>2</sup> Because of the Patient Protection and Affordable Care Act's (ACA) Medicaid expansion, payments for "newly eligible" adults were reimbursed at a 100-percent FMAP during calendar years (CYs) 2014 through 2016.



## **Social Security Administration: Date of Death Information**

The Social Security Administration (SSA) maintains death record information by obtaining death information from relatives of deceased beneficiaries, funeral directors, financial institutions, and postal authorities. SSA processes death notifications through its Death Alert, Control, and Update System, which matches the information received from external sources against the Master Beneficiary Record and the Supplemental Security Income Record.<sup>3</sup> SSA records the resulting death information in its Numerical Identification System (the Numident).<sup>4</sup> SSA then uses information from the Numident to create a national record of death information called the Death Master File (DMF).<sup>5, 6</sup>

## **Federal Requirements**

A capitation payment is “a payment the State agency makes periodically to a contractor on behalf of each beneficiary enrolled under a contract for the provision of medical services under the State plan. The State agency makes the payment regardless of whether the particular beneficiary receives services during the period covered by the payment” (42 CFR § 438.2).

## **Minnesota’s Medicaid Managed Care Program**

In Minnesota, the State agency is responsible for administering the Medicaid managed care program,<sup>7</sup> which provides health insurance to children and families, pregnant woman, adults without children, seniors, and people who are blind or have a disability. The program provides acute, primary, specialty, long-term, and behavioral health services in all 87 counties of Minnesota.

During our audit period, approximately 74 percent of Minnesota’s Medicaid population received benefits through eight MCOs under contract with the State agency. The contracts with the MCOs covered health care services to eligible Medicaid beneficiaries in exchange for a fixed

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<sup>3</sup> SSA, *Program Operations Manual System*, GN 02602.060 (May 13, 2011). The Master Beneficiary Record is an electronic record of all Title II (of the Act) beneficiaries. The Supplemental Security Income Record is an electronic record of all Title XVI (of the Act) beneficiaries.

<sup>4</sup> The Numident contains personally identifiable information for each individual issued a Social Security number (SSN).

<sup>5</sup> SSA, *Program Operations Manual System*, GN 02602.060.B.1 (May 13, 2011).

<sup>6</sup> SSA maintains death data—including names, SSNs, dates of birth (DOBs), and States of death—in the DMF for approximately 98 million deceased individuals.

<sup>7</sup> Medicaid managed care consists of Title XIX programs that are encompassed within the following contracts: Families & Children (Medical Assistance and Minnesota Care through 2014), Minnesota Senior Health Options and Minnesota Senior Care Plus, and Special Needs Basic Care.

per-member, per-month capitation payment. The contracts state that the State agency may make a claim for recovery of an overpayment if it is determined that there has been an error in its payment to the MCO (State agency contract, section 4).<sup>8</sup> The State agency made payments of approximately \$15.4 billion to Medicaid MCOs during our audit period.

State Medicaid agencies use the Medicaid Management Information System (MMIS) to process payments and maintain beneficiary eligibility and enrollment information. In Minnesota, the MMIS interacts with the State agency's eligibility databases. During our audit period, the State agency used the MAXIS<sup>9</sup> and Minnesota Eligibility Technology System (METS) eligibility databases to maintain and process Medicaid beneficiaries' eligibility and to interface with the MMIS.

## HOW WE CONDUCTED THIS REVIEW

Our audit covered 6,318 net monthly capitation payments,<sup>10</sup> totaling \$4.4 million,<sup>11</sup> with service dates during the period January 1, 2014, through December 31, 2016<sup>12</sup> (audit period), made on behalf of beneficiaries reported as deceased. To identify beneficiaries reported as deceased, we matched the MMIS data to the DMF using the beneficiaries' SSNs, names, and DOBs. We then identified all capitation payments that occurred for months following a beneficiary's month of death in the DMF.

We selected a random sample of 100 capitation payments totaling \$68,265 (\$60,311 Federal share), identified the date of death as reported in the DMF,<sup>13</sup> and determined whether payments were made on behalf of the deceased beneficiaries. Using the results of our sample, we estimated the total value and Federal share of unallowable capitation payments.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions

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<sup>8</sup> There were several different contracts for Minnesota's MCO programs during our audit period. Although the section numbers vary among the contracts, the provisions related to the recovery of capitation payments are present in all contracts.

<sup>9</sup> Not an acronym; MAXIS is the formal name of the system.

<sup>10</sup> Because of payment adjustments, some beneficiaries had more than one capitation payment per month. Therefore, we netted all capitation payments that occurred for the same beneficiary in the same month into a single capitation payment.

<sup>11</sup> The actual amount was \$4,409,280.

<sup>12</sup> The audit period encompassed the most current data available at the time we initiated our review.

<sup>13</sup> We identified the beneficiaries' dates of death using national investigative databases, death certificates, or obituaries.



based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A contains the details of our audit scope and methodology, Appendix C contains the details of our statistical sampling methodology, Appendix D contains our sample results and estimates, and Appendix E contains the Federal and State requirements.

## **FINDINGS**

The State agency made capitation payments on behalf of deceased beneficiaries. Of the 100 capitation payments in our sample, the State agency made 95 unallowable payments totaling \$62,665 (\$55,932 Federal share). The unallowable payments occurred because the State agency did not always identify and process Medicaid beneficiaries' death information. During our audit period, the State agency was in the process of integrating a new eligibility and enrollment system (METS) that did not have procedures established for closing cases due to death. In addition, although the State agency's eligibility systems interfaced with Federal data exchanges that identify dates of death, the State agency did not always receive notification that beneficiaries had died. On the basis of our sample results, we estimated that the State agency made payments totaling at least \$3.7 million (\$3.2 million Federal share)<sup>14</sup> to MCOs on behalf of deceased beneficiaries for service dates during our audit period.

### **THE STATE AGENCY MADE UNALLOWABLE PAYMENTS TO MEDICAID MANAGED CARE ORGANIZATIONS**

Contractual agreements with the MCOs provide for recovery of an overpayment (e.g., capitation payment made after a beneficiary's death).<sup>15</sup> However, the State agency did not always recover the capitation payments after a beneficiary's death, despite its efforts to identify and recover them.

The State agency made capitation payments totaling \$4.4 million on behalf of beneficiaries reported as deceased, who we identified by matching the State agency's MMIS data to the SSA DMF. We confirmed that 95 beneficiaries associated with the 100 capitation payments in our simple random sample were deceased.

Of the 100 capitation payments in our sample:

- The State agency made 95 unallowable capitation payments totaling \$62,665 (\$55,932 Federal share). The State agency made 91 of these capitation payments to MCOs on behalf of beneficiaries who did not have a date of death in the MMIS. Of the remaining four capitation payments, the State agency made two payments on behalf of

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<sup>14</sup> The actual amounts were \$3,685,087 and \$3,243,531, respectively.

<sup>15</sup> Minnesota Managed Care Contractual Agreements from January 1, 2014, through December 31, 2016, section 4.



beneficiaries who had an incorrect date of death in the MMIS and two payments on behalf of a beneficiary who had a correct date of death in the MMIS.

- For the remaining 5 capitation payments in our sample, we were unable to confirm the death of the beneficiaries associated with the payments and thus did not treat these payments as errors.

## **THE STATE AGENCY DID NOT ALWAYS IDENTIFY AND PROCESS DEATH INFORMATION**

The State agency did not always identify and process Medicaid beneficiaries' death information in the METS and the MAXIS. When death information is properly identified and processed, the METS and the MAXIS use that information to automatically terminate the beneficiary's eligibility, remove him or her from the Managed Care program using a date of death reason code, and interface with the MMIS, which stops capitation payments from being made and initiates the recovery process for capitation payments made after the beneficiary's date of death.

During our audit period, the State agency was in the process of converting eligibility and enrollment information for some Medicaid programs from the MAXIS to the METS. During the conversion, the METS initially did not have procedures in place to properly interface with the MMIS to stop capitation payments made after a beneficiary's date of death and initiate the recovery process for those payments. The State agency developed and implemented procedures related to the processing of changes in a beneficiary's eligibility status (i.e., death) and interfacing with the MMIS during our audit period. We determined that 83 of the 95 payments made after a beneficiary's death were related to the lack of procedures in the METS and its inability to properly interface with the MMIS.

The State agency relies on death notifications from various sources, including hospitals, nursing homes, and family members of deceased beneficiaries. In addition, the State agency utilizes a Federal Data Services Hub (Federal Hub)<sup>16</sup> to verify beneficiaries' SSNs, household composition, and other information. The State agency uses the Federal Hub to process new applications and annual renewals. Although the State agency's eligibility systems interfaced with the Federal Hub annually, the State agency did not always receive notification that the beneficiaries had died in the interim. This issue pertained to 10 of the 95 payments that were made after beneficiaries' deaths.

When the date of death is confirmed by the State agency, a caseworker is responsible for inputting the date of death into the applicable eligibility system (MAXIS/METS), which initiates closing the case. Caseworkers did not properly follow death procedures in place and

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<sup>16</sup> The Federal Hub is a single conduit for marketplaces to send electronic data from multiple Federal agencies; it does not store data. The data sources available through the Federal Hub are the U.S. Department of Health and Human Services, Social Security Administration, and the Internal Revenue Service, among others.

erroneously closed the cases for reasons other than death. This issue pertained to the remaining two capitation payments.

## **ESTIMATE OF UNALLOWABLE CAPITATION PAYMENTS**

On the basis of our sample results, we estimated that the State agency made payments totaling at least \$3.7 million (\$3.2 million Federal share) to MCOs on behalf of deceased beneficiaries for service dates during our audit period.

## **RECOMMENDATIONS**

We recommend that the Minnesota Department of Human Services:

- refund \$3,243,531 to the Federal Government;
- identify and recover unallowable payments made to MCOs during our audit period on behalf of the deceased beneficiaries, which we estimated to be at least \$3,685,087;
- identify capitation payments made on behalf of deceased beneficiaries before and after our audit period and repay the Federal share of amounts recovered;
- ensure that State agency staff are properly trained to process dates of death and eligibility termination in accordance with State agency internal policies; and
- utilize additional sources to identify dates of death to help reduce unallowable payments.

## **STATE AGENCY COMMENTS**

In written comments on our draft report, the State agency did not specifically concur with our recommendations. The State agency stated that it will review the beneficiary and date of death information received from OIG and return any Federal funds that can be validated as overpayments. In addition, the State agency described actions it has taken or plans to take to address our remaining recommendations.

The State agency's comments are included in their entirety as Appendix F.

## **APPENDIX A: AUDIT SCOPE AND METHODOLOGY**

### **SCOPE**

Our audit covered 6,318 net monthly capitation payments, totaling \$4,409,280, made on behalf of beneficiaries whose reported dates of death were prior to the service month of the capitation payment. We reviewed capitation payments with service dates during the period January 1, 2014, through December 31, 2016 (audit period). We selected a random sample of 100 capitation payments totaling \$68,265 (\$60,311 Federal share) for review.

We did not review the overall internal control structure of the State agency or its Medicaid program. Rather, we reviewed only those internal controls related to our objective. We limited our review to determining whether MCOs in Minnesota received capitation payments on behalf of beneficiaries whose dates of death preceded the capitation payment month.

We conducted our fieldwork from October 2017 through April 2019.

### **METHODOLOGY**

To accomplish our objective, we:

- reviewed Federal and State laws, regulations, and guidance;
- gained an understanding of the State agency's internal controls over preventing, identifying, and correcting payments after a beneficiary's death;
- reviewed the State agency contracts with the MCOs for our audit period;
- obtained from the State agency a list of 1,480,268 beneficiaries for whom the State agency made at least 1 capitation payment for service dates during the period January 1, 2014, through December 31, 2016;
- matched the file of beneficiaries to the SSA's DMF and identified 42,812 beneficiaries reported as deceased;
- provided the list of 42,812 deceased beneficiaries to the State agency and requested all capitation payments made on behalf of the beneficiaries for service dates during the period January 1, 2014, through December 31, 2016;
- obtained from the State agency a file containing 1,850,323 capitation payments that were made on behalf of beneficiaries reported as deceased for service dates during the period January 1, 2014, through December 31, 2016, totaling \$815,989,398 (the State agency file);



- used the State agency file to remove capitation payments made for each beneficiary's month of death and prior months, netted the remaining capitation payments by beneficiary and month, and removed net capitation payments less than or equal to \$0;
- created a sampling frame containing 6,318 net capitation payments totaling \$4,409,280 that the State agency made to MCOs on behalf of beneficiaries whose dates of death preceded the capitation payment service month;
- selected for review a random sample of 100 capitation payments totaling \$68,265 (\$60,311 Federal share);
- for each sampled capitation payment, obtained current documentation from the State agency to support:
  - the beneficiaries' first and last names, SSNs, DOBs (ensuring that the information matched the DMF), and Medicaid identification numbers;
  - whether the MMIS identified the beneficiaries' dates of death;
  - that a capitation payment occurred for the service month (ensuring the accuracy of the paid amount); and
  - whether any adjustments were made for the sample capitation payments;
- compared the dates of death in the MMIS with the dates of death in the DMF for the 100 sample items;
- used Accurant,<sup>17</sup> Minnesota's Department of Health Office of Vital Records, and obituaries as alternative information sources to independently confirm the dates of death on file in the DMF;
- estimated the total value and Federal share of unallowable capitation payments using OIG, Office of Audit Services (OAS), statistical software; and
- discussed the results of our review with State agency officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions

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<sup>17</sup> Accurant is a LexisNexis data depository that contains records from more than 10,000 data sources. Accurant's identity repository contains death records from multiple sources, including the DMF, State deceased records, and other proprietary sources.

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX B: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
<i>Illinois Medicaid Managed Care Organizations Received Capitation Payments After Beneficiaries' Deaths</i>	<a href="#"><u>A-05-18-00026</u></a>	8/20/19
<i>Georgia Medicaid Managed Care Organizations Received Capitation Payments After Beneficiaries' Deaths</i>	<a href="#"><u>A-04-15-06183</u></a>	8/09/19
<i>California Medicaid Managed Care Organizations Received Capitation Payments After Beneficiaries' Deaths</i>	<a href="#"><u>A-04-18-06220</u></a>	5/07/19
<i>Ohio Medicaid Managed Care Organizations Received Capitation Payments After Beneficiaries' Deaths</i>	<a href="#"><u>A-05-17-00008</u></a>	10/04/18
<i>Wisconsin Medicaid Managed Care Organizations Received Capitation Payments After Beneficiaries' Deaths</i>	<a href="#"><u>A-05-17-00006</u></a>	9/27/18
<i>Tennessee Managed Care Organizations Received Medicaid Capitation Payments After Beneficiary's Death</i>	<a href="#"><u>A-04-15-06190</u></a>	12/22/17
<i>Texas Managed Care Organizations Received Medicaid Capitation Payments After Beneficiary's Death</i>	<a href="#"><u>A-06-16-05004</u></a>	11/14/17
<i>Florida Managed Care Organizations Received Medicaid Capitation Payments After Beneficiary's Death</i>	<a href="#"><u>A-04-15-06182</u></a>	11/30/16



## **APPENDIX C: STATISTICAL SAMPLING METHODOLOGY**

### **TARGET POPULATION**

The target population consists of net positive capitation payments that the State agency made for service dates during the period January 1, 2014, through December 31, 2016, and for months following a beneficiary's month of death in the SSA's DMF.

### **SAMPLING FRAME**

The State agency provided a file of 1,480,268 beneficiaries for whom it made at least 1 monthly capitation payment for service dates during CYs 2014 through 2016. We matched that file to the SSA's DMF to identify 42,812 Title XIX beneficiaries with dates of death. The State agency then provided a file with 1,850,323 capitation payments made on behalf of the 42,812 Title XIX beneficiaries for service dates during CYs 2014 through 2016. We removed any capitation payments for each beneficiary's month of death and prior months. Finally, we netted capitation payments by beneficiary and month and then removed net capitation payments less than or equal to \$0.

The resulting sampling frame consisted of 6,318 net capitation payments totaling \$4,409,280, from which we drew our sample.

### **SAMPLE UNIT**

The sample unit was a net monthly capitation payment.

### **SAMPLE DESIGN**

We used a simple random sample.

### **SAMPLE SIZE**

We selected a random sample of 100 net capitation payments.

### **SOURCE OF RANDOM NUMBERS**

We generated the random numbers using the OIG/OAS statistical software.

### **METHOD FOR SELECTING SAMPLE UNITS**

We consecutively numbered the capitation payments in the sampling frame. After generating the random numbers, we selected the corresponding capitation payments from the sampling frame.

## ESTIMATION METHODOLOGY

We used the OIG/OAS statistical software to estimate the total value and Federal share of unallowable payments made to deceased beneficiaries during our audit period. To be conservative, we recommend recovery of unallowable payments at the lower limit of a two-sided 90-percent confidence interval. Lower limits calculated in this manner are designed to be less than the actual total of unallowable payments in the sampling frame 95 percent of the time.

## APPENDIX D: SAMPLE RESULTS AND ESTIMATES

**Table 1: Sample Results**

No. of Net Capitation Payments in the Frame	Value of Frame	Sample Size	Total Value of Sample	Incorrectly Paid Sample Items	Value of Over-payments in Sample
6,318	\$4,409,280	100	\$68,265	95	\$62,665

**Table 2: Estimates of Unallowable Payments for the Audit Period**  
*(Limits Calculated for a 90-Percent Confidence Interval)*

	Total Amount	Federal Share
Point estimate	\$3,959,199	\$3,533,778
Lower limit <sup>18</sup>	3,685,087	3,243,531
Upper limit	4,233,310	3,824,025

<sup>18</sup> To be conservative, we recommend recovery at the lower limit of a two-sided 90-percent confidence interval. Lower limits calculated in this manner are designed to be less than the actual overpayment total 95 percent of the time.



## **APPENDIX E: FEDERAL AND STATE REQUIREMENTS**

### **FEDERAL REQUIREMENTS**

The Federal Government pays its share of a State's medical assistance expenditures under Medicaid based on the FMAP, which varies depending on the State's relative per capita income as calculated by a defined formula (42 CFR § 433.10).

In connection with the Medicaid managed care program, providers are defined as "any individual or entity that is engaged in the delivery of health care services and is legally authorized to do so by the State in which it delivers the services " (42 CFR § 400.203).

A capitation payment is "a payment the State agency makes periodically to a contractor on behalf of each beneficiary enrolled under a contract for the provision of medical services under the State plan. The State agency makes the payment regardless of whether the particular beneficiary receives services during the period covered by the payment" (42 CFR § 438.2).

### **STATE REQUIREMENTS**

#### **State Agency Contract With Managed Care Organizations**

The Minnesota managed care contracts state that the State agency may make a claim for recovery of an overpayment if it is determined that there has been an error in its payment to the MCO (State agency contracts, section 4). While the State generally has 1 year to assert such a claim, the 1-year limitation does not apply to payments for full months after the death of a beneficiary.



September 13, 2019

Sheri L. Fulcher, Regional Inspector General for Audit Services  
Office of Audit Services, Region V  
Department of Health and Human Services  
Attn: 233 North Michigan, Suite 1360  
Chicago, Illinois 60601

Re: Draft Audit Report Number A-05-17-00049

Dear Ms. Fulcher:

Thank you for providing an opportunity to comment on draft audit report A-05-17-00049 entitled *The Minnesota State Medicaid Agency Made Capitation Payments to Managed Care Organizations After Beneficiaries' Deaths*. We recognize the importance of ongoing evaluation, review and quality improvement to ensure that Medicaid funds are used as efficiently as possible. To that end, this letter summarizes our efforts thus far, and discusses some remaining challenges.

There were specific challenges that occurred during the audit period related to the implementation of our new eligibility system. These challenges included the temporary inability to terminate a deceased person's enrollment without negatively affecting the coverage of other household members, and the need to extend the enrollment period beyond the standard one year for a number of cases. These problems have since been fixed and other procedures have been added to avoid making such payments in the first place, and to identify and recover more quickly when these payments occur. We have already taken significant steps to recover payments and return the federal share. We continue to recover payments and refund the federal share when we can verify a date of death and an overpayment.

In late 2013, Minnesota began using a new eligibility system known as METS, for new applicants in Medicaid (known as MA), for the MinnesotaCare program, which was a Medicaid program in 2014 but became a Basic Health Program on January 1, 2015, and for premium tax credits and cost-sharing reductions in our state-based exchange known as MNsure. This system was not fully functional at the outset, which initially increased the amount of time necessary for determining and renewing eligibility for Medicaid. For that reason, we asked for and received "transition waiver" authority under section 1902 (e)(14)(A) of the Social Security Act to delay certain Medicaid renewals, to abbreviate certain eligibility-related processes, and to delay converting MAGI-related cases from our legacy eligibility system (MAXIS). CMS acknowledges in these waivers, which were renewed for two additional years, that this authority was necessary to safeguard ongoing coverage.

Because renewals are an important point in identifying those enrollees who passed away during the year, it is likely that the extended period of time for which individuals were enrolled during the transition to MAGI eligibility resulted in at least some of the additional months of capitation payments that the OIG identified in its findings.



It is also important to point out when the METS system went live, it did not have the capacity to allow us to terminate enrollment for the deceased member of the household without negatively affecting the health care of all other members of the household. This is in part why the audit time period—2014 through 2016—was problematic. The system now has the capacity to change the eligibility for the deceased individual without the negative impact on other family members.

The Department, in conjunction with the local human services agencies, has done much to recover the funding related to capitation payments in this period of time, and return the federal share of those expenditures to the federal government. For calendar years 2014 through 2016, we had already identified most excess eligibility months related to enrollee deaths, and for those cases that were open in the system at the time of the identification, we added the date of death to the eligibility file, which resulted in automatic recoveries of capitation payments from the managed care organizations (MCOs) and the related return of federal funding to CMS.

The remaining extra months of eligibility identified in the OIG audit mostly relate to cases that were no longer active in our eligibility system. For these cases, we had not recovered the payments automatically because of concerns about other potential impacts. We are considering our options for these cases, but we will recover and refund the federal share of the recovery for each case where we are able to verify a date of death.

In addition to the recoveries described above, we have imposed new procedures in the eligibility processes that will avoid extra payments in the first place. We obtain an electronic file of state death records from the Minnesota Department of Health, and use this file to identify enrollees who have passed away and close out eligibility. In August, 2018, we implemented a periodic data matching process that interfaces with other data sources, including the Social Security Administration data on deaths, midway through an eligibility year. This process has been helpful in identifying deceased individuals.

In addition, we have updated the materials in our health care eligibility procedures manual, updated the associated training materials, and conveyed those changes to county and state eligibility workers, in order to ensure that deaths that are reported or identified are accurately reflected in the system and the case files are properly updated.

We also encourage the various federal agencies to consider improving the federal hub to give states the actual date of death, and to consider ways to make the Death Master File easier to access for state Medicaid programs free of charge for the purpose of avoiding extra capitation payments.

Our responses to the specific recommendations are detailed below.

**Recommendation #1.** We recommend that the Minnesota Department of Human Services refund \$3,243,531 to the federal government.

**Recommendation #2.** We recommend that the Minnesota Department of Human Services identify and recover unallowable payments made to MCOs during our audit period on behalf of the deceased beneficiaries, which we estimated to be at least \$3,685,087.



**Response to Recommendations #1 and #2:** On September 6, 2019, DHS received data from the OIG on each beneficiary and respective date of death included in the cited overpayments. We will review that information and return federal funds that we can validate as overpayments. Given that the \$3,243,531 federal share was extrapolated from the sample of 100 capitation payments, it is unlikely the final refund amount will match.

**Recommendation #3.** We recommend that the Minnesota Department of Human Services identify capitation payments made on behalf of deceased beneficiaries before and after our audit period and repay the federal share of amounts recovered.

**Response:** As explained above, the implementation of the new system in 2014 created unique challenges, and since then, we have developed and implemented data matches and new procedures designed to ensure that extra months of capitation payments are not made following an enrollee's death. These procedures were in place by the end of the audit period.

**Recommendation #4.** We recommend that the Minnesota Department of Human Services ensure that state agency staff are properly trained to process dates of death and eligibility determination in accordance with internal policies.

**Response:** As noted above, we have updated our eligibility procedures and training to ensure that eligibility is closed and the date of death is entered into the eligibility file.

**Recommendation #5.** We recommend that the Minnesota Department of Human Services utilize additional sources to identify dates of death to help reduce unallowable payments.

**Response:** While we believe that we have addressed this issue using currently available data, we are committed to reducing unallowable payments and will continue to evaluate our processes, including the use of additional data sources, to provide assurance that we are effectively managing this issue.

If you have any questions, comments or concerns about our response, please contact Gary L. Johnson, Director of Internal Audits, at 651 431-3623 or through e-mail at [Gary.L.Johnson@state.mn.us](mailto:Gary.L.Johnson@state.mn.us).

Sincerely,

/Jodi Harpstead/

Jodi Harpstead  
Commissioner